

U. S. DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20590

STATEMENT OF JAMES M. BEGGS, UNDER SECRETARY OF TRANSPORTATION, BEFORE THE SUBCOMMITTEE ON TRANSPORTATION AND AERONAUTICS, HOUSE COMMITTEE ON INTER-STATE AND FOREIGN COMMERCE, REGARDING THE PENN CENTRAL RAILROAD, WEDNESDAY, MARCH 10, 1971.

Mr. Chairman and members of the Committee:

I am pleased to appear before you today to discuss the Department's activities under the Emergency Rail Services Act of 1970, particularly with respect to the Penn Central Railroad.

Before examining Penn Central's situation, I would like to review briefly the general earnings picture in the rail industry. The preliminary figures for railroad earnings in 1970 vary little from what we had expected. While gross operating revenues reached a record high of \$12 billion, the increase in expenses outpaced revenues. We believe the final figures will show net railway operating income of about \$500 million, as compared to \$655 million in 1969.

Net ordinary income is expected to be about half the \$514 million of 1969 and return on investment will decline to 1.76, the lowest since 1938.

We are hopeful that both traffic and earnings will improve in 1971. However, there is no discernible trend in either from the figures available for January and February. Any optimism is contingent on many imponderables.

Revenue will increase in 1971 as a result of freight rate increases and hopefully major gains in carloadings and revenue ton miles, but

equipment refinancing, the prospects of divestment of affiliated companies, and the possible sale of real estate. In other words, all sources of funding had to be fully explored. This material was furnished in a supplemental submission received in the Department on January 12, 1971. We had analyzed Penn Central's actual cash flows between July 1 and December 31, 1970, and its forecasted cash flows through March 31, 1971, and determined that a minimum operating cash balance of between \$20.1 and \$22.3 million should be maintained to assure operational liquidity.

After examination of all relevant data, and after consulting with the Interstate Commerce Commission and other executive departments, we concluded that the guaranty of trustee certificates in the principal amount of \$100 million was justified. Accordingly, the Secretary approved the guaranty of trustee certificates, subject to the terms and conditions set forth in Exhibit A to the Agreement on Terms and Conditions. A copy is attached to my testimony, and I request that it be made a part of the record.

The agreements for the guaranty and sale of the certificates were executed on January 26, 1971. The proceeds from the sale were placed in short-term Government securities and bank certificates of deposit and made immediately available to the trustees to be drawn out as needed. The trustees are required to give the Secretary advance notice

to 60 miles. Applications for abandonment of these lines have already been filed with the Interstate Commerce Commission and the Transport Commission of Canada.

Phase II of the program consists of 67 lines or segments of line comprising a total of 705 route miles. The trustees have petitioned the Reorganization Court for authority to abandon 63 segments comprised both of Penn Central and leased line ownership, and in the interim to file applications with the Interstate Commission for certificates permitting such abandonments. Appropriate abandonment applications for these 63 segments, as well as four additional segments of affiliated companies, are being prepared and are expected to be filed with the Commission this month.

The trustees have advised that a study is underway to determine the lines which will be included in Phase III of the immediate abandonment program. This determination involves analysis of approximately 2,662 route miles. It is expected that the specific content of Phase III will be decided by April 30, 1971, and a request for authority filed with the Reorganization Court. Subsequent phases will be developed and processed promptly. The trustees estimate that the total program will ultimately result in a reduction of about 5,000 route miles, or 40 percent of the present total.

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EXHIBIT A

Terms and Conditions to be Observed by the Trustees
of the Property of Penn Central Transportation Company

Section 3 of the Emergency Rail Services Act of 1970 ("Act") authorizes the Secretary of Transportation to guarantee the timely payment of principal and interest on certificates issued by the trustees.

Section 3(b) of the Act directs the Secretary to establish certain conditions precedent to a guarantee. Section 3(d) of the Act further authorizes the Secretary to prescribe such other terms and conditions as he deems appropriate.

Accordingly, the following terms and conditions are hereby prescribed:

(1) The proceeds of the sale of certificates guaranteed under this Act will be used solely for meeting payroll and other expenses which, if not met, would preclude continued provision of essential transportation services by the company.

(2) Other revenues of the company will be used to the fullest extent possible for such expenses.

(3) Proceeds from the sale of assets will be devoted to the fullest extent possible, to the provision of essential transportation services by the company.

(4) In the event of actual or threatened cessation of essential transportation services by the company, the Secretary shall have the option to procure by purchase or lease trackage rights over the lines of the railroad and such equipment as may be necessary to provide such services by the Secretary or his assignee, and, in the event of a default in the payment of principal or interest as provided by the certificates, the money paid or expenses incurred by the United States as a result thereof shall be deemed to have been applied to the purchase or lease price. The terms of purchase or lease shall be subject to the approval of the reorganization court and the operation over the lines shall be subject to the approval of the Commission pursuant to the provisions of section 5 of the Interstate

AGREEMENT ON TERMS AND CONDITIONS

This Agreement is made this 26th day of January 1971, by and between the Secretary of Transportation of the Department of Transportation of the United States (the Secretary) and George P. Baker, Richard C. Bond, Jervis Langdon, Jr., Willard Wirtz, as trustees of the property of Penn Central Transportation Company, as trustees and not individually (the trustees).

The trustees have applied to the Secretary, pursuant to Section 3(a) of the Emergency Rail Services Act of 1970 (P. L. 91-663) (the "Act"), for a guaranty of their Certificates in a principal amount not to exceed \$100 million. The Secretary has made the findings required by Section 3(a) of the Act and, on this date, is entering into a Guaranty Agreement with the trustees.

The Secretary has established certain terms and conditions to be observed by the trustees as a condition to the making of the guaranty, said terms and conditions being attached hereto and made a part hereof as Exhibit A. Pursuant to the authority granted them by Order No. 124, dated January 13, 1971, in proceedings for the reorganization of Penn Central Transportation Company under Section 77 of the Bankruptcy Act in the United States District Court for the Eastern District of Pennsylvania (the reorganization court), the trustees are authorized to comply with said terms and conditions.

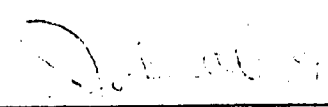
In consideration of the foregoing and of the agreements made herein, the parties agree as follows:

1. The trustees shall observe the terms and conditions set forth in Exhibit A hereto, subject to the jurisdiction of the reorganization court over specific actions of the trustees under the provisions of the Bankruptcy Act.
2. The guaranty fee required by Section 3(b) of the Act shall be $\frac{3}{8}$ of one percent of the principal amount of the Certificates guaranteed. The fee shall be payable, pro rata, on the maturity dates, or cancellation following redemption, of the Certificates guaranteed. In the event that such sum shall not be paid, the Secretary may treat such amount not paid in the same manner as he may treat amounts paid by him on account of outstanding Certificates pursuant to Section 3(b)(4) of the Act.

(11) The trustees shall permit the Secretary, as necessary, to inspect and copy all accounts, books, records, memorandums, correspondence, and other documents of the company concerning any matter which may bear upon (1) the ability of the company to repay the certificates guaranteed within the time fixed therefor, (2) the interest of the United States in the property of the company, and (3) to insure that the purpose of the Emergency Rail Services Act of 1970 is being carried out.

Date

January 13, 1971



(John A. Volpe)

Secretary of Transportation
Department of Transportation of the
United States, as Guarantor